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Kenya

Coffee

Kenya Coffee Annual Report

2007

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Report Highlights:
The government has authorized direct coffee sales (Second Window) to run parallel with the auction system.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Nairobi [KE1]
[KE]

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Production

Coffee Board of Kenya (CBK) estimates production for MY 2005/06 at 52,000 tons (2004/05 45.245 tons). FAS estimates production for 2006/07 at 55,000 tons. The upsurge is attributed to favorable weather, increased production from non-traditional coffee farming areas and improved coffee prices. Despite a resumption of improved husbandry during 2005/06 the 'on cycle' tree production potential for 2006/07 is still low. A prolonged period of less than adequate farm husbandry during the past crisis years due to low coffee prices has reduced crop potentials. Wide fluctuations in production (i.e. a high of 129,000 in 1987/88 to a low of 48,000 in 2003/04) due to climatic and price influences will continue to impact on recorded volumes and the long term trends expected to be influenced by profitability.

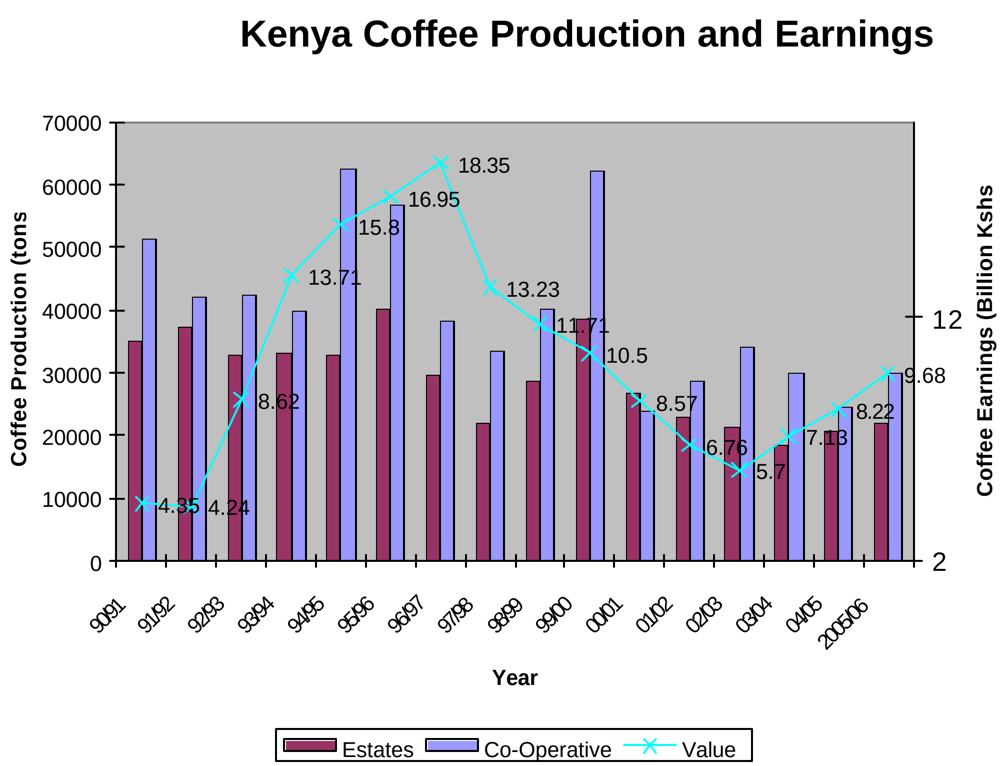
Country	**Kenya**								
Commodity	**Coffee, Green**		(1000 HA)(MILLION TREES)(1000 60 KG BAGS)						
	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2005	10/2005		10/2006	10/2006		10/2007	10/2007
Area Planted	167	167	167	167	167	167	0	0	168
Area Harvested	150	150	150	150	150	150	0	0	150
Bearing Trees	200	200	200	200	200	200	0	0	200
Non-Bearing Trees	0	0	0	0	0	0	0	0	0
Total Tree Population	200	200	200	200	200	200	0	0	200
Beginning Stocks	316	316	200	481	371	418	511	401	466
Arabica Production	833	833	867	848	850	916	0	0	950
Robusta Production	2	2	2	2	0	2	0	0	2
Other Production	0	0	0	0	0	0	0	0	0
Total Production	835	835	869	850	850	918	0	0	952
Bean Imports	0	0	0	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0	0	0	0
Soluble Imports	3	3	3	3	3	3	0	0	3
Total Imports	3	3	3	3	3	3	0	0	3
Total Supply	1154	1154	1072	1334	1224	1339	511	401	1421
Bean Exports	650	760	631	800	800	850	0	0	900
Rst-Grnd Exp.	0	0	0	0	0	0	0	0	0
Soluble Exports	0	0	0	0	0	0	0	0	0
Total Exports	650	760	631	800	800	850	0	0	900
Rst,Ground Dom. Consum	20	20	20	20	20	20	0	0	20
Soluble Dom. Cons.	3	3	3	3	3	3	0	0	3
Domestic Use	23	23	23	23	23	23	0	0	23
Ending Stocks	481	371	418	511	401	466	0	0	498
Total Distribution	1154	1154	1072	1334	1224	1339	0	0	1421
Exportable Production	812	812	846	827	827	895	0	0	929

Note: Production and export (auctioned coffee) figures are estimates. Stocks are hard to capture, provided figures are estimates.

Price instability has resulted in the intercropping of coffee with other crops (beans, bananas and potatoes etc) among small-scale farmers, to improve income and food supply. This has impacted negatively on both yield and quality of coffee. Coffee area is threatened as farmers from the main coffee growing region engage in more profitable agricultural enterprises mainly horticulture and dairy. This is especially true in the Mount Kenya region and Nyanza province. Emerging Interest from non-traditional coffee growing regions is likely to sustain area as the farmers shift from maize farming (coffee has higher gross margins) to coffee. There is increased demand for planting material, mainly Ruiru 11 (a high yielding variety that is resistant to coffee Leaf Rust (LR) and Coffee Berry Disease (CBD)) in this region. However, the main coffee growing areas have the traditional varieties that are expensive to maintain. The western Kenya farmers have formed unique co-operatives and hand pulp their coffee to deliver to the co-operative society for marketing.

Estate coffee production has been on a general decline and is likely to continue unless existing policies are changed. Medium to large-scale farms use manual labor to harvest coffee making the cost of production very high. They pay cash wages to workers rather than having access to non-cash family labor like the small-scale farmers. Some estates farmers have opted to quit coffee farming and adopt other more profitable enterprises and in some instances intercrop coffee with other food crops, a departure from purestand farming.

Coffee Production and Earnings



Though coffee prices have frequently fallen below the cost of production in the last decade the improved prices and earnings as indicated by the graph are likely to have positive impacts on volume and quality.

Coffee Trade

Figures obtained from the Coffee Board of Kenya posted coffee exports at 42,197 tons for 2004/05 and 37,867 tons for MY 2005/06 as shown in the table below.

Kenya Coffee Exports Trade Matrix

Export Trade Matrix for Kenya			
Commodity	Coffee, Green		
Time Period	2004/05	Units:	2005/06
Exports for:	2005		**2006**
U.S.	4,449	U.S.	6189
Others		Others	
Germany	11592	Germany	11343
Sweden	5200	Sweden	4506
Belgium	5006	Belgium	2368
U.K	2591	U.K	2491
Finland	2241	Finland	2465
Netherlands	3220	Netherlands	2019
Norway	1382	Norway	869
France	756	France	411
Japan	793	Japan	418
Canada	881	Canada	547
Total for Others	33662		27437
Others not Listed	4086		4241
Grand Total	42197		37867

Policy and Marketing

Policy Shift

During the second half of 2006 GOK authorized the new legislation commonly known as the ‘Second Window’ to run parallel with the auction system. Prior to the new legislation coffee was marketed under the central marketing system of the Nairobi Coffee Exchange. Some analysts believed that it restricted farmers to one trading system. The gazetted rules define the second window as a contractual agreement between the growers and the marketing agent and a buyer located outside Kenya for the sale of clean coffee. The marketing agent must demonstrate ability to access overseas market, conduct market research and provide a bank guarantee to protect farmers’ money.

Coffee exports using the ‘second window’ is still minimal with many seeing it as an opportunity but still studying risks if any. Industry analysts argue that the second window needed to have been more liberalized; presently the farmer is required to operate through a marketing agent who must be approved by the GOK. The involvement of coffee dealers as marketing agents has also been questioned with industry participants seeing a possible undermining of prices at the auction. The estate farmers and the large co-operatives are the likely beneficiaries of the second window.